

MEMORANDUM

TO: Mayor and Town Council

FROM: Roger L. Stancil, Town Manager
Kenneth C. Pennoyer, Business Management Director

SUBJECT: Consideration of Final Budget and Related Items

DATE: June 7, 2010

Adoption of the attached ordinance would establish the budget for 2010-11 and authorize a variety of related actions.

DISCUSSION

The proposed Budget Ordinance constitutes the annual budget for 2010-11. The ordinance reflects the Manager's Recommended Budget as amended by the Town Council as follows:

- Adds funding of \$20,250 for the Chapel Hill Museum. This funding is based on \$3,000 per month for July-September and \$1,250 per month thereafter contingent on a new lease/performance agreement to be negotiated by the Town Manager and presented to Council in Fall, 2010. These additional funds will come from funds previously allocated for funding the Ten Year Plan for Ending Chronic Homelessness, which we now understand can be paid for using existing agency funds carried-over from current and prior fiscal years.
- Increases funding for the Visitors Bureau by \$20,000 for 2010-11 only. The Town Manager will negotiate a performance agreement for the Visitors Bureau for a total of \$150,000. This additional funding will come from the Council Contingency Fund.

The final budget proposal:

- Adopts the same tax rates as FY2009-10 and makes minor adjustments to the Town's Fee Schedule:
 - 36.0 cents per \$100 assessed value for the General Fund
 - 9.3 cents per \$100 assessed value for Debt Service
 - 4.1 cents per \$100 assessed value for the Transportation Fund
 - Combined General Fund tax rate of 49.4 cents
 - 7.1 cents per \$100 assessed value for the Downtown Service District
- Uses approximately \$3.0 million in savings from the current year,
- Uses about \$2.1 million in existing fund balance for one-time costs such as capital improvements and the employee pay adjustment,
- Maintains basic services, maintains benefits levels, absorbing a 13.9% increase in health insurance premiums and a 32% increase in employer contributions to the state pension fund,

- Provides for a one-time flat rate payment of \$800 for all regular town employees,
- Provides for an increased Capital Improvement Program and plans for the issuance of \$20.41 million in general obligation debt in Fall of 2010,
- Continues contributions to Human Services, Arts, Affordable Housing and Economic Development agencies, and
- Provides a fare free transit system as in past years

FEE SCHEDULE: The following changes to the Town's Fee Schedule are included in the recommended budget:

Library:

Overdue Materials (all new)

Periodicals	\$.20/day; maximum \$3.50 per item
DVD's	\$.50/day; maximum \$10.00 per item
Book kits	\$2.50/day; maximum \$20.00 per item

Damaged Materials

Trade	increased from \$15 to \$17
Mass Market	increased from \$10 to \$12
DVD case	\$3 (new)

Parking:

New flat fee for evening parking - \$2.00

Parks & Recreation:

Climbing Wall admission fee to residents increase from \$3 to \$4

Planning

Planning fees are increased by 1.7% based on the annual consumer price index cost of service adjustment.

New:

Development Plan (OI-4) \$5,410 plus \$109/acre

Development Agreement - negotiated with Town Council

Site development permit \$4,328

Historic District Commission combined cert. of appropriateness and ZCP \$491

Historic District Commission combined cert. of appropriateness for duplex \$325

CDC Duplex elevations and site plan \$358

CDC Combined duplex elevation/site plan and ZCP \$524

Site Plan review – Site plan modification \$2,705 plus \$27/100sf

Site Plan review – extension, renewal, minor change \$813

Police:

Taxi permits increase from \$5 each to \$20

Taxi inspection fees \$10 per vehicle (new)

Public Works:

Lane/Sidewalk closure permit issuance fee increase from \$100 to \$150

Street closure permit issuance fee increase from \$150 to \$200
GIS street maps increase from \$20 to \$25
GIS zoning maps increase from \$20 to \$25
GIS street maps increase from \$20 to \$25
GIS aerial maps increase from \$25 to \$30
Specialty maps and GIS data service increase from \$50/hr to \$65/hr

FUND BALANCE: I recommend appropriating \$5,072,230 from the Town's fund balance to balance the General Fund budget and accomplish the Council's goals. A portion of this fund balance comes from the budget savings set-aside during the current fiscal year and the remainder is from existing fund balance. Based on our preliminary estimates it looks like we will finish the current fiscal year about 15.0% undesignated General Fund balance. This level of reserves is consistent with the average for the triple A rated peer group. Maintaining an adequate level of fund balance is critical to meet the cash flow requirements of this municipal corporation and to provide an emergency fund to safeguard the Town against the costs of recovering from unforeseen economic, emergency and natural disasters.

MAINTAIN BASIC SERVICES: The Town's services are highly valued by our residents, as evidenced by their comments and the recent community survey. The Town's ability to consistently deliver high quality services is dependent on our ability to hire and retain a high quality work force. Part of the Town's on-going strategy to accomplish this has been a competitive compensation package including comprehensive medical benefits for full-time employees. In recent years, the increasing costs of health insurance have made it very difficult to maintain the Town's benefit package. When we began budget planning for the Recommended Budget for 2010-11, our insurance carrier projected a 22% increase in health insurance premiums. This level of increase is not sustainable. To address this issue, I convened a task force of employees from all areas of the organization to learn together about the challenges of healthcare costs and to think together about changes to the plan that will reduce costs in the long-term while retaining a competitive benefit for employees. This budget contains minor changes in co-pays that reduce the rate of increase in our premiums for 2010-11 to 13.9%, close to the general trend in health care cost increases. This is one small step in getting control over the costs of healthcare.

In addition to addressing the health benefits plan directly, we are also working to reduce costs by promoting our health metrics program and healthy lifestyles choices through our expanded wellness programs. We are working with UNC Hospitals to find creative ways to match our healthcare needs with their delivery capacity and to create efficiencies and cost savings through a cooperative, innovative approach, including an onsite health facility.

I have included in my recommended budget a one-time, flat rate payment for permanent employees employed by the Town as of June 30, 2010. This payment is calculated as an amount equivalent to 2% of the median employee's annual pay. Each employee will receive the same dollar amount. This amount will be paid in one lump sum and, similar to a bonus, it will not become part of the employee's base pay. Since this is a one-time expense and because it was the effort of these employees that created the budget savings portion of the fund balance, I believe it is appropriate to use a portion of the Town's fund balance in excess of 15% to fund this cost.

DEBT ISSUANCE AND THE CIP BUDGET: In 2003 a bond referendum was passed authorizing the issuance of \$29,360,000 in general obligation bonds. To date \$ 8,950,000 of the authorized bonds have been issued, leaving \$20,410,000 in Library, Sidewalks and Streets and Parks & Recreation bonds authorized but unissued. The referendum authority to issue expires in November of 2010. In order to use this remaining authority the Town must issue bonds prior to November or request an extension from the LGC. The budget as submitted assumes that all of the remaining authorized bonds will be issued in September of 2010.

For the FY2008-09 budget, a debt management plan was adopted to provide a better system for management of the Town's debt and its effect on the Town's operating budget. The current tax rate dedicated to the debt fund is sufficient for the debt service on issued debt and for the debt service on the \$20.4 million of authorized, but unissued, general obligation bonds. Our projections indicate that we can issue these bonds now without increasing the dedicated tax for the debt fund.

Last year, in addition to delaying debt-funded capital projects, we significantly reduced CIP projects funded through a transfer from the General Fund. For next year, we are recommending increasing our investment in CIP projects using one-time money from fund balance. The projects listed below represent our highest priority projects. They are, for the most part, minimal levels of major maintenance and facility improvements. The Fiber Optic Network Project represents a one-time opportunity to install a municipal fiber optic system in conjunction with NCDOT's traffic signal project, consistent with Council's stated priorities. This project will create a fiber-optic infrastructure for the Town at approximately one tenth the cost of building it ourselves. Total funding for capital projects in the CIP is recommended at \$1,237,800. Projects included in the CIP for this year include the following:

Extraordinary Maintenance - Emergency Repairs	\$ 75,000
Fire Station #3 Capital Maintenance	120,000
Curb Repairs: ADA Compliance	20,000
Fiber optic cable	100,000
Small Park Improvements	75,000
Playground Replacement	75,000
Greenways	40,000
Parking Lots/Paths/Trails	40,000
Skate Park	46,000
Cedar Falls Parking Lot Paving	63,000
Battle Branch Trail	80,000
Street Maintenance	75,000
In-Car Police Cameras	108,800
Reserve Fire Truck	300,000
Cemetery Beautification	20,000
Total	<u>\$ 1,237,800</u>

PERFORMANCE AGREEMENTS WITH OTHER AGENCIES: The FY2010-11 Budget maintains approximately the same total amount of funding for performance agreements with other agencies as the current year. The recommended amounts include the changes noted below.

Performance Agreements with Other Agencies	2009-10 Budget	2010-11 Recommended Budget
Human Services*	\$ 357,900	\$321,100
Environmental	1,000	1,000
Arts**	10,500	30,750
Affordable Housing***	238,100	213,500
Economic Development****	229,000	249,000
Total Contributions to Agencies	\$ 836,500	\$ 815,350

*Reduction in Human Services due to transfer of funding for senior programming at Seymour Center to Parks & Recreation Budget.

** Increase in Arts due to the addition of funding for Chapel Hill Museum operations.

*** Decrease in Affordable Housing due to elimination of funding for Homeless Initiative for FY2011 due to availability of funding from prior allocations.

**** Increase in Economic Development to provide a one-time \$20,000 payment to the Convention and Visitor's Bureau.

FARE FREE TRANSIT SYSTEM: The adopted budget for the Transit Fund includes a 4.8% increase over last year's budget. This increase is due in part to the increases in fixed route, demand response and vehicle maintenance. Overall operating costs for fixed route bus service is up 7.8%, due in part to the increased cost of fuel. State assistance is expected to increase by 14.5%, while federal assistance is declining by 6.9% and federal operating grants have been eliminated. Significant challenges lie ahead in FY 2011-12 and beyond as the continued availability of state and federal funds are not guaranteed. We need to pursue strategies for reducing costs and/or seeking alternative sources of funding to ensure the long-term stability of the system. In order to mitigate these challenges and to operate a more cost effective system, Chapel Hill Transit staff will:

- Evaluate individual route performance and introduce efficiencies as part of the short range planning process
- Identify additional funding options
- Develop short range operating and capital plans to identify future system needs
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BUDGET ORDINANCE: The components of the Budget Adoption Ordinance for FY2010-11 are as follows:

1. **Appropriations** – Authorization of funds to be expended in the FY2010-11 Budget by function and fund.
2. **Revenues** – Estimated revenues expected to be available during the FY2010-11 Budget Year

3. **Tax Levy** – Tax rates for the General, Debt, and Transit Funds expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2010.
4. **Special District Tax Levy** - Tax rate for the Downtown Service District expressed per \$100 of valuation of taxable property as listed by the County Tax Assessor for January 2010.
5. **Authorities for Transfers and Adjustments** – Defines the authority to move funds among and between functions, projects and funds.
6. **Classification and Pay Plan** – Establishes salary grades, position classifications, number of authorized positions and certain general provisions concerning payment of Town Employees for the FY2010-11 Fiscal Year. The Plan reflects changes by the Town Manager during the fiscal year within the authorized number of positions and the adopted budget.
7. **Recommended User Fees** – Establishes all fees, fines and charges that may be imposed during the FY2010-11 Fiscal Year.
8. **Reappropriation of outstanding Purchase Orders** – Appropriates encumbered balances from prior fiscal year so that financial obligations created in FY2009-10 can be paid in FY2010-11.

RECOMMENDATION

We recommend that Council enact the attached ordinance to establish the FY2010-11 Town Budget.